

Effects of Institutionalization over the Raising Values of Family-Owned Businesses and a Practice

Sefer Gümüş^a, Hande Gülnihal Gümüş^b

^a Asst. Prof. Beykent University, Istanbul, Turkey

^b Şişli Vocational High School, Istanbul, Turkey

Abstract

The family businesses constitute the base of global economies. They provide contributions to economy and sectors with their assets and activities. Their reaching to plan, program and objectives occur through the sharing of experience, knowledge and accumulation. Their adaptation to domestic and global markets is the characteristic separating the definition, family businesses from other businesses. In this study, the advantages and disadvantages of this situation, management forms, institutionalism concept and its stages and elements of institutionalism, institutionalism stages in family businesses, problems preventing institutionalism, institutionalism of family relations that family constitution, board of directors, family council, inheritance plan, emergency situation plan and conflict management are explained and effects of family individuals over institutionalism, the general characteristics of institutionalized family businesses are defined and a practice regarding the issue of "Institutionalism of Family Relations", which was performed in a family business through observation, conversation and interview, which was founded in Istanbul in year 1989 and carrying activities in textile sector over shirt, short and pant manufacturing were given place. Literature review regarding family business were performed in this study and the concepts and theoretical information related with the subject were explained and combining the theory and practice, knowledge accumulation and experience sharing through a practice performed through observation, conservation and interview made with the management of a family business were provided and they were explained in our study with an academic language.

Key Words: Business, Family, Institutionalism, Family-Businesses

JEL: M12 , M 13

© 2014 Published by SSBFNET

1. Introduction

The business is an institution, which has the objective of satisfying the human requirements through producing goods or services (Taşlıyan and Bakan, 2004). The businesses are separated into types as businesses according to area of

activity principle, businesses according to capital ownership principle, business according to size principle and businesses according to their management type.

The businesses according to their area of activity, are classified as considering at which area of activity or activity branches they produce good and service, businesses separated according to capital ownership principle are classified as considering under whose ownership the capital is, businesses according to size are classified in accordance with number of their employees and businesses according to their management type are classified as considering that by whom is the management of the business is performed and these business separated into two types as businesses managed by families and businesses managed by professional managers.

The contribution of family businesses to the economy of our country and world economy, which are entered in the group of businesses according to their management types, is important at least as other businesses' contributions. The share of family businesses among the general businesses in Turkey is 65-90 percentages and their contribution to national income is between 45 percentages and 70 percentages.

2. Theoretical Framework

2.1 Family-Owned Business Structure

Family is defined as the smallest entity in the society that is constituted by the marriage and kin-based relations among husband, wife, children and siblings (Tuskish Language Society Turkish Dictionary, 1998). Businesses are the establishments that aim at satisfying the requirements of people by producing goods or providing services. These establishmets may be classified based on their area of activity, equity ownership, size and management principles (Taşlıyan and Bakan, 2004). Contribution of the family-owned businesses to the Turkish and world economy is incontrovertible; but this is not the only answer to the question of why their lifetime should not be short (Kırım, 2007). If the family-owned businesses are positively affected by the family culture and their commitment to that culture, if they are cleared of the problems that may be caused by being a family, and if they can be instutionalized; they can serve as a model for the other businesses, besides the benefit they will provide to their family members, business workers, professional managers and to the society that they belong to.

95 % of the businesses in Turkey are family-owned businesses. It is observed that this proportion is considerably high in other countries of the world as well. Of the existing businesses other than the public enterprises in the world, 65-90 % are qualified as family-owned business. It is also known that 40 % of the businesses in Fortune 500, which gives the gradation of the best enterprises in USA, are family-owned businesses. (Kırım, 2001)

Managament forms in Family-owned Businesses

“An entrepreneurial management mentality” is usually followed during the establishment stage of the family-owned businesses; it is observed that they are in need of a “professional management” during the development stage; and “institutional management” is seen in the developed family-owned businesses. Additionally, there are centralized

management and participative management styles that affect the cultural visibility of the family-owned business and where the elements of company and management are seen.

Entrepreneurial Management

The businesses established by entrepreneurs who make progress by accommodating to continuously renewing advanced technologies and changing market conditions, have a considerable role in the solution of the employment problem of the countries.

Descriptions of Entrepreneurship

According to Hansework; it is a tendency that involves; creation of new products and new methods, accessing into new markets, establishing a new organization structure, and showing a willpower against all these (Hansework, 1998). According to Thomas and Mueller; it is a sum of the psychological features, behaviors and values of an individual, who is motivated to establish and sustain a business (Mueller and Thomas, 2000). Becherer and Mauer stated that those individuals; who have a tendency of taking risk and internal control ability, who have the ability to work in unsteady environments, whose will for success is high, and who do not like routines and do not wish to retire; are entrepreneurs. (Becherer and Mauer, 1999). Ability of the entrepreneurs to react positively against unclear conditions is being underlined by Teoh and Foo (Teoh and Foo, 1997)

2.2. Characteristics of an Entrepreneur

Keasey and Watson have reviewed the characteristics that an entrepreneur must have in two parts; individual and socio-economic. (Keasey and Watson, 1993). Individual Characteristics: The first one of the individual characteristics is core competence, and they are the abilities that provide, to the business, an edge over the subjects like quality and innovativeness by ensuring that values are created on the areas like production, marketing, research and development. The other ability is the mental competence that involves; anticipation, perception, making analysis and synthesis. Socio-Economic Characteristics: A successful entrepreneur, at the same time, needs to have human relations skills, and possess the ability to efficiently intrrelate with the workers, competitors, suppliers, banks, professional organizations and politicians.

Entrepreneurial Management is an innovative, pro-active and risk-taking organizational behavior of a business, in order to gain a competitive capacity and reach the targets (Knight, 2001). Drucker puts forward that entrepreneurship is a discipline (Drucker, 2003). Drucker additionally states that entrepreneurship may be risky because a great number of entrepreneurs behave unconsciously and do not work systematically; however entrepreneurship is not an art or science, but it is an event that realizes itself in the execution (Drucker, 1985).

2.3. Institutionalism

Institutionalism is a process required to be implemented also in family businesses through understanding what it is and as stage by stage, as it is in other businesses. What the institutionalism concept is and the stages required to be followed during institutionalism process are defined below.

The word “(institutional)” had to involve the meanings of “institutional” and “corporate” in English, and was derived from the word “institution”. Institution defines a formation at the level of an institution, an organization that formed in long years and that has a culture which can only change very slowly, and that formed its own specific culture, beyond being conservative. Consequently, the word institutional defines the status of having these characteristics; and institutionalization defines the process on the way towards possessing these characteristics. And the word institutional, in the meaning of corporate, reflects the situation of being legally associated as a company, and the status of belonging to an incorporated company (like corporate culture- institutional culture; corporate governance-institutional governance) (Yıldız, 2008). March described institutionalization as “organizational change together with environmental change, and provision of the standardization in the direction of change”. Three points attract attention in this definition. According to March, institutionalized organizations change together with the environmental change, they learn these changes and develop new standards in accordance with the new situation. According to Selznick; institutionalization is “the process where an organization creates a separate identity and becomes a sensitive and flexible organism as a product of social needs and pressures”. As can be seen, the gravity in this definition is given to the fact that business has a separate identity and structure from the other businesses, and it complies with the social needs (Yıldız, 2008).

3. Institutionalism In Family Businesses

3.1 Growth Stages of Family Businesses

Institutionalism becomes very important at family businesses, which are growing and desire to be long-lasting and it has characteristic including effect of enabling both the relations of family members and organization's carrying its activities in its structure regularly.

It was stated that many of the issues we have listed while mentioning about the disadvantages of family businesses are caused by their not being able to start their institutionalism at required processes and not passing into professional management. The management, which is not institutionalized and remained to following generations, creates great problems at the growing processes of the businesses. One of the biggest problems of the family businesses at their growing stages is not being able to institutionalize. Meşe, states that family businesses' not achieving an institutional identity is an important factor for arising of problems or not finding a solution for appeared problems (Meşe, 2005).

The owners of family businesses know and realize that institutionalism is a certain requirement for their company, but this is a condition, which is difficult for them to accept. Because, a complete and perfect institutionalism requires the owners of family business to abdicate from the management, who do not have knowledge and experience regarding management of company. This means having a certain confidence. The owners of family businesses look at

institutionalism with lack of confidence at first and then they are cool towards institutionalism completely. (Reid, 2002).

3.2. Organizational Institutionalism of Family Businesses

Today “Good Management” and “Institutional Management” identify with each other at companies, which are managed successfully in all developed market economies of the world (Alacaklıoğlu, 2005). The institutional management understanding is an understanding that intending to protect the rights of shareholders and all interest groups (employees, managers, suppliers, creditors, customers and community) and organize the structure of relations between the aforesaid interest groups within this scope besides the traditional structures carrying the objective of creating value at the management and activities of the companies, making profit and distributing the produced profit among the shareholders. (Öztürk and Demirgüneş, 2005). According to Yaşa, the institutional management principles are shaped on four main concepts. These are, the financial performance of the company, institutional management of the company, shareholding structure, principle of transparency, based on announcing sufficient, true and comparable information about the company in timely manner, accountability principle, liability principle and fair management principle (Yaşa, 2006). According to Kırım, the main issue, which is required to be understood from institutionalism is, becoming “a system”. As it is the same at each system, determining the roles and missions of the parts of the system and providing the system to operate within its own integrity and establishment of substructure of interaction are required (Kırım, 2007)

4. Effects of Institutionalization over the Raising Values of Family-Owned Businesses and a Practice

Institutionalism of family relations, which is one of the most important stages of institutionalism in family businesses, is analyzed at an enterprise and proposals are created regarding the study performed as related with the subject and methods.

How the enterprises are affected from family relations during the process of institutionalism is analyzed on the basis of a sample enterprise within the scope, method and objective defined below.

This practice was performed in a family business, which was founded in Istanbul in year 1989 and carrying activities in textile sector over shirt, short and pant manufacturing, regarding the subject of Institutionalism of Family Relations. The staff of the business formed 12 individuals, which has been managed by two sons, following the death of father in year 1997, who is the founder and entrepreneur, increased to 152 persons in process of time with participation of professional employees and the company has opened many stores in many centers in the country through the management of second generation. The export of the company, which was only towards European countries at the beginning, expanded also towards Asian and Middle East countries later. The institutionalism works performed in the business and their position regarding the institutionalism of family relations were analyzed.

In this research, the methods used in the enterprise were tried to be detected through asking questions, which were pre-prepared and they were observed. The research with title of “How much are the Family Businesses Ready for

Institutional Management: A research over Family Businesses Carrying Activities in Eskişehir” was benefited and used while preparing these questions. (Ulukan, 2004,)

Observation, conversation and interview methods were applied at the practice. Conversation and interview were performed with one of the sons, who are at the position of member of board of directors and finance manager of the business. The person, with whom the conversation was performed, was realized during the observation that he is capable of representing the family business and it was believed that he answered the questions honestly and warmly. The purpose of the research is performed for the purpose of developing proposals regarding the analyses and observation of how the relations between the family members reflect into functions regarding the activities carried by them in the business during the stage of institutionalism of family relations and reaching the objectives in a family business at textile sector. For this purpose, opinion, knowledge and experiences of the member of the board of directors of the family business carrying activities in textile sector, who participated in our conversation, regarding this issue, were referred. When whether the individuals at the management position of a family business, carrying activities at textile sector, have any opinion and information about the concept of “institutional management” is analyzed, they stated that they are aware of the successes of the businesses trying to be institutionalized and they carry activities for the purpose of systematizing the business towards practice and they have opinion that it is not so much possible to carry active works in a family business regarding institutionalism of management.

5. Conclusion and Suggestion

In this research, which intended to analyze family businesses effective at growth of countries and to determine their characteristics, advantages and disadvantages of family businesses differing them from other businesses, what should be performed for the purpose of development and growing stages and enabling them long-lived, effects of family members during institutionalism process, what institutionalism can cause to family businesses to achieve, a literature review was performed according to the purpose and a practice applied on the basis of observation, conversation and interview and its results were given place in the study.

The institutionalism activities of the business that has been managed by two sons, following the death of father, who was entrepreneur, their position regarding the institutionalism of family relations were analyzed and the duties of the organs existing in this family business, by whom the decisions are taken and how these decisions are implemented, position of the persons who are working in the family business, but not members of family were observed and it was realized and understood that family members have right to speak regarding the management of business directly or indirectly.

Regarding the institutionalization process of family businesses, the benefits and effects of company’s receiving consultancy service regularly or when it is required and the disadvantages of not receiving consultancy services were mentioned and it was concluded that consultants should be employed and included in the board of directors of family

businesses, which carry their activities at fields that they are expert and the results and advices of received consultancy service should be applied and put into practice in the businesses.

According to these results, we may present these suggestions:

The management, family members and employees should be informed about the institutionalization of the family business and institutional management. The management and supervisory boards should be able to perform their missions and duties in the enterprise and submit the results of their activities to the management. The decisions related with strategical plans should be taken by Board of Directors and the financial decisions should be taken by top management and consultancy services should be received from expert advisors, in case it is required.

The participation of family members, partners and professional partners in the board of directors of the company should be provided. The decisions should be taken according to the thoughts discussed clearly and these decisions should be put into practice. The factors, which are important in the institutionalization of family relations in family businesses, such as family constitution, inheritance plan and work management should be transferred to next generations through written texts.

The family members should be directed to internal and external training programs during the institutionalization process and the participants of these training programs should be awarded. In addition to these, a fast communication should be provided among the family members. The family culture should be made free from negative aspects and it should be converted into enterprise culture.

For the settlement and management of disputes, these should be discussed in family council among the family members, who are the partners of the company. The developing technologies should be put into practice at every stage of the family business. Carrying activities through minimizing favoritism of relatives in the companies presents great advantages.

References

- Akdoğan ,H.; Seyrek,İ., (2004), *Aile İşletmelerinde Profesyonel Yöneticilik ve Çorum Örneği*, Bildiri,1.Aile İşletmeleri Kongresi, Kongre Kitabı, İstanbul Kültür Üniversitesi Yayını, İstanbul, s.275-285.
- Alacaklıoğlu, H., (2005). Aile Şirketlerinde Kurumsal Yönetim, *Platin: Aylık Ekonomi ve Aktüalite Dergisi*, 06/2005, s.106-107
- Becherer, R., Maurer, G.J., (1999). *The Proactive Personality Disposition and Entrepreneurial Behavior Among Small Company Presidents*, Journal A Small Business Management, Vol:21,Issue:8, June, pp.54.
- Berman, E., (1984). *How to Set Up A Small Business*, Cambridge: Press Syndicate of the University of Cambridge, pp.24.

- Bozkurt, R., (2004a) *Aile İşletmelerinde Sürekliliğin Sağlanması -2*, Anahtar, Milli Prodüktivite Merkezi Aylık Yayın Organı, s.14-15
- Drucker, P.F., (2003) *.Geleceğin Toplumunda Yönetim*, Çev.Mehmet Zaman, İstanbul, Promat Basım, s.89.
- Drucker, P.F., (1985). *Innovation and Entrepreneurship*, Harper and Row Publishers, pp. 25.
- Hansework, O.,C., (1998). The Effects of an Enrepreneurship Programme on Need for Achievement and Locus of Control of Reinforcement, *International Journal of Entrepreneurial Behavior and Research*,Vol:4, No:1, pp.29.
- İstanbul Üniversitesi İşletme Ana Bilim Dalı, Yayınlanmış Doktora Tezi, İstanbul, s.4, 11.
- Keasey,K.,Watson,R.,(1993). *Small Firm Management: Ownership,Finance,Performance*, Ist Ed.,Blackwell Publishers,pp.87.
- Kırım,A.,(2007). *Aile Şirketlerinin Yönetimi*,Şirket Kültürü Dizisi;293,Sistem Yayıncılık,1.Baskı,İstanbul,s.3,14-15,18.
- Knight,G.,(2001). Entrepreneurship and Strategy in the International Small Manegement, *journal of International Menegement*,Vol;7,pp.664.
- Meşe,R.,Snow,C.,(1978).Organizational Strategy,Structure and Process, Mc Grov Hill,p.30.
- Mueller,S.L., Thomas,A.S., (2000). Cultura and Entrepren eurial; A Nine Country Study of Locus of control *Innovativeness,Journal os Businnes Venturing*,Vol; q16,pp.52
- Reid,R.T.,Morrow,B.Kelly,P.Maccartan (2002). People Manegement in SME's *Journal of Small Family Businnes*.
- Taşlıyan, M.,Bakan(2004). Aile İşletmelerinde Girişlimcilerin Yönetim Fonksiyonları üzerine etkileri:Mevcut Durum Olması Gereken Gereken Durum Karşılaştırması,Bildiri,1.*Aile İşletmeleri Kongresi*,Kongre Kitabı,İstanbul Kültür Üniversitesi Yayını,s.314-324.
- Teoh,H.Y.,Foo,S.L.,(1997). Moderating Effects of Tolerance for Ambiguity and Risk Taking Propensity On The Role Conflict- Percieved Performance Relatiponship: Evidence From Singaporean Entrepreneurs, *Journal of Businnes Venturing*,Vol.12,pp.68.
- Ulukan,C.(2004). Aile İşletmeleri Kurumsal Yönetim İçin Ne Kadar Hazır; Eskişehir'de Faaliyet Gösteren Aile İşletmeleri Üzerine Bir Araştırma, *17-18 Nisan,Kültür Üniversitesi 1.Aile İşletmeleri Kongresi*,Editör Tamer Koçel,2.Baskı,s.221-222.
- Öztürk,B.,Demirgüneş K., (2005). Kurumsal Yönetim Bakış Açısıyla Entellektuel Sermaye,4.*Orta Anadolu İşletmecilik Kongresi Kurumsal Yönetim,Bildiri Kitabı*,TOBB Ekonomi ve Teknoloji Üniversitesi,Ankara 13-14 Mayıs 2005 s.118-133.

Yıldız,A., (2008). Aile İşletmelerine Tavsiyeler,Sistem Yayıncılık,İstanbul,s.14-21,87-92.

Yaşa,E.,(2006). Mersin İlinde Faaliyet Gösteren Aile Şirketlerinde Kurumsallaşma,Çağ Üniversitesi,Sosyal Bilimler Enstitüsü,İşletme Anabilim Dalı Yayımlanmış Yüksek Lisnas Tezi,s.12-15,20-41.